

1 demonstrating “serious loan quality issues at [New Century] beginning as early as  
2 2004;” numerous “red flags” relating to loan quality; and the failure of New  
3 Century’s Senior Management and Board of Directors to devote sufficient attention  
4 to improving loan quality until the final quarter of 2006, when it “was too late to  
5 prevent the consequences of longstanding loan quality problems in an adversely  
6 changing market.” “Rather, New Century continued to focus on generating greater  
7 quantities of ever riskier loans, devoting little effort to such basic issues as making  
8 sure that the Company’s loan origination and underwriting policies and procedures  
9 were followed to avoid kickouts of loans offered for sale.” Contrary to the above  
10 statements, New Century “devoted its resources to generating high volumes of  
11 loans, with relatively little attention to loan quality” and did not even have any  
12 “formal exceptions policy.” The Examiner found these ever-increasing risks to be  
13 “a veritable ticking time bomb.” As a result of these findings, the Examiner  
14 concluded that the public statements made by New Century regarding the  
15 purported credit characteristics of its loans and strict and consistent underwriting  
16 guidelines were “not supportable” and without “justifiable basis” when made.

17 368. As set forth in paragraph 75 above, according to CW 1, New Century  
18 had intentionally delayed payment of valid repurchase claims, causing a massive  
19 backlog of repurchase claims, 80% of which, or hundreds of millions of dollars  
20 worth, were 18 to 24 months old as of September 2006 – meaning that the backlog  
21 went back to the 2005 first quarter. According to CW 1, these repurchase claims  
22 already were determined to be valid and should have been paid 18 to 24 months  
23 earlier, but the Company delayed payment of them in an effort to cause its  
24 previously reported financial results to appear better than they actually were.  
25 According to CW 1, by the end of the 2004 fourth quarter, New Century already  
26 had a large backlog of valid, unfunded repurchase claims. Accordingly, hundreds  
27 of millions of dollars worth of these valid repurchase claims should have been  
28 funded prior to the start of the Class Period in May 2005, but were not. As set

1 forth in paragraph 77 above, according to CW 3, New Century was “sitting on  
2 repurchase requests” hoping to ride out the market and the Company failed to have  
3 good internal reporting of repurchase information prior to 2006. In addition,  
4 according to the internal New Century document quoted in paragraph 79 above,  
5 61% of the Company’s outstanding repurchase claims, or \$167 million worth, had  
6 been received by July 31, 2005. The failure to properly account for these  
7 outstanding repurchase claims caused material errors in the Company’s 2005  
8 second quarter reported financial results and resulted from material weaknesses in  
9 the Company’s internal controls at the time the claims were received and  
10 processed, but not funded, which included the time of the above statements.  
11 Accordingly, the material financial misstatements and material weaknesses in  
12 internal controls relating to the repurchase claims backlog eventually reported by  
13 the Company on February 7, 2007 and, thereafter, were in existence at the time of  
14 the above statements, rendering them materially false and misleading when made.

15 369. As set forth in paragraphs 91-93, 96-97 above, the facts revealed by  
16 the Examiner’s Report further demonstrate that “beginning no later than 2004,  
17 New Century was receiving repurchase requests related to loans sold outside of the  
18 previous 90-day period and it was taking much longer than 90 days to evaluate and  
19 process repurchase requests and repurchase loans.” In violation of GAAP, “New  
20 Century was not reserving, however, for these loans that it might be required to  
21 repurchase, and on which it might incur losses and expenses, but for which no  
22 reserve was provided.” By January 26, 2005, the Examiner found “clear indication  
23 that New Century Accounting Department personnel knew that many loans that  
24 were ultimately repurchased in 2004 were Backlog Claims. . . . Notwithstanding  
25 this information, New Century did nothing to adjust its methodology for estimating  
26 the quantity of loans that might need to be repurchased as of the end of a financial  
27 reporting period.” In addition, at the time of the above-reported 2005 second  
28 quarter earnings and at all times throughout 2005, New Century “perplexingly”

1 further violated GAAP by failing to reserve for Interest Recapture as set forth in  
2 paragraphs 96-97 above. Consistent with the Examiner's Report, New Century's  
3 above-quoted description of its Allowance for Repurchase Losses was materially  
4 misleading when made as it stated that the Company "occasionally" may  
5 repurchase loans after 90 days without disclosing the then-existing repurchase  
6 claims backlog.

7 370. As set forth in paragraphs 106-08 above, the facts revealed by the  
8 Examiner's Report demonstrate that New Century's Residual Interests were  
9 overstated at the time of the above-reported 2005 second quarter earnings and at all  
10 times throughout 2005-06 as "New Century insisted on using unduly low discount  
11 rates;" New Century "repeatedly resisted warnings from specialists at KPMG  
12 [starting at least for its quarterly review for the first quarter of 2005], who warned  
13 that the discount rates New Century was using were below those used by most of  
14 its peers;" "New Century relied for far too long on antiquated and flawed  
15 internally-developed Excel-based models to value residual interests;" and New  
16 Century failed "to adjust its prepayment rates to reflect changing market conditions  
17 . . . contrary to the advice it consistently received as far back as the first quarter of  
18 2005 from KPMG's SFG, which repeatedly expressed concern about the  
19 Company's use of low prepayment speed assumptions."

20 371. As set forth in paragraphs 194-96 above, the facts revealed by the  
21 Examiner's Report demonstrate that that New Century's internal controls suffered  
22 from significant deficiencies and material weaknesses at the time of the above-  
23 reported 2005 second quarter internal control certifications and statements and at  
24 all times throughout 2005-06 as the result of "deeply-rooted and long-standing  
25 failures to establish and monitor adequate internal controls over financial  
26 reporting;" including failures to "develop effective policies and procedures for  
27 performing accounting estimates requiring the exercise of considerable judgment;"  
28 and to "remediate internal control deficiencies that existed at year-end 2004."

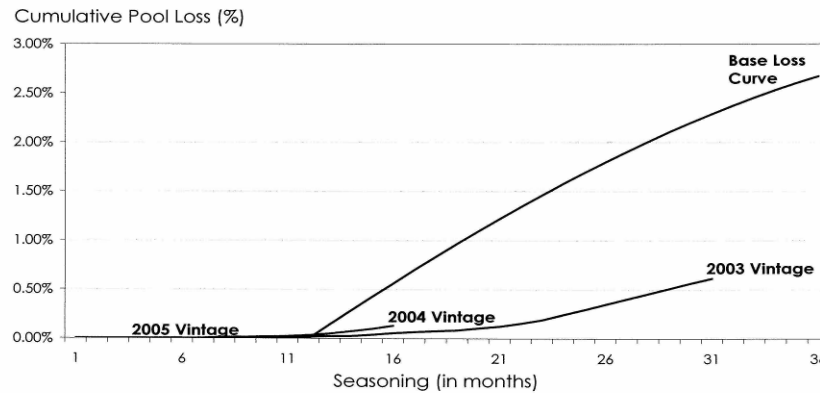
1 Among the deficiencies that New Century failed to remedy from year-end 2004  
2 were “key controls surrounding the repurchase reserve estimation process;” “the  
3 allowance for loan losses methodology and rationale;” and “controls related to the  
4 hedging and derivatives process.” “New Century also failed to establish sufficient  
5 internal controls with respect to its residual interest valuation process.” As  
6 demonstrated by the facts obtained by the Examiner (as well as the numerous other  
7 facts set forth in paragraphs 366-67 above), New Century also suffered throughout  
8 2005 (and 2006) from “significant deficiencies and material weaknesses in  
9 Management’s internal control structure related to loan quality . . . .”

10 **C. 2005 Third Quarter Statements**

11 372. On November 3, 2005, the New Century Officer Defendants Cole,  
12 Morrice, Gotschall and Dodge issued a press release reporting the Company’s  
13 earnings results for the third quarter ended September 30, 2005. The Company  
14 reported net earnings for the third quarter of \$120.1 million, or \$2.04 per share.  
15 The press release contained income statement and balance sheet data purporting to  
16 reflect the Company’s financial performance and assets and liabilities for the three  
17 months and nine months ended September 30, 2005 in accordance with GAAP.  
18 The press release reported New Century’s Residual Interests as of September 30,  
19 2005 at \$172,111,000.

20 373. On November 3, 2005, the New Century Officer Defendants also held  
21 a conference call with analysts and investors. During the call, Defendants Cole  
22 and Morrice reviewed the Company’s reported financial results for the quarter  
23 ended September 30, 2005. During the conference call, Defendant Morrice  
24 presented the following slide (made available over the Internet) regarding the  
25 claimed “strong loan performance” of New Century’s loan portfolio:  
26  
27  
28

New Century Base Loss Curve vs. Vintage Actuals  
(all securitized product)



Morrice described the slide as follows:

[T]his slide illustrates a different approach to illustrating the strong loan performance of our portfolio than we have shown you before, so let me try to explain this graphic. The top line represents our modeled losses. This model is based on the entire history of New Century's loan loss experience, including to a very large extent the performance of loans originated years ago with much lower FICO scores, and other less favorable credit characteristics compared to recent production. The bottom lines, which are somewhat hard to see in several cases because they are so small, represent actual loss experienced to date on our 2003, 2004 and 2005 vintage loans. [Emphasis added.]

During the question-and-answer portion of the conference call, Defendant Morrice stated: "[W]e have not seen any meaningful spike in first payment defaults, certainly something we track carefully, but at this point that has not been our experience." (Emphasis added.) Defendant Dodge immediately followed by agreeing with Morrice's statement, noting that first payment defaults were "very modest over the last 12 months." (Emphasis added.)

1           374. On or about November 9, 2005, the New Century Officer Defendants  
2 Cole, Morrice, Gotschall and Dodge filed the Company's Form 10-Q for the  
3 quarter ended September 30, 2005. The third quarter 2005 Form 10-Q contained  
4 consolidated balance sheets and consolidated statements of earnings purporting to  
5 reflect the Company's financial performance and assets and liabilities for the three  
6 months ended September 30, 2005 in accordance with GAAP. The Form 10-Q  
7 stated:

8           The Company has prepared the accompanying unaudited condensed  
9           consolidated financial statements in accordance with accounting  
10           principles generally accepted in the United States of America for  
11           interim financial information and with the instructions to Form 10-Q  
12           and Rule 10-01 of Regulation S-X. Accordingly, they do not include  
13 all of the information and footnotes required by generally accepted  
14 accounting principles for complete financial statements. In the  
15 opinion of management, all adjustments (consisting of normal  
16 recurring accruals) considered necessary for a fair presentation have  
17 been included. [Emphasis added.]

18 The third quarter 2005 Form 10-Q was signed by Defendants Cole, Morrice,  
19 Gotschall and Dodge.

20           375. The third quarter 2005 Form 10-Q reported New Century's Residual  
21 Interests as of September 30, 2005 at \$172,111,000 and New Century's Allowance  
22 for Loan Repurchase Losses as of September 30, 2005 at \$5.9 million. The third  
23 quarter 2005 Form 10-Q purported to describe the Company's "Critical Accounting  
24 Policies" including New Century's methods for calculating "Residual Interests in  
25 Securitizations" and "Allowance for Repurchase Losses:"

26           *Residual Interests in Securitizations*

27           [T]he Residuals described above are a significant asset of the  
28 Company. In determining the value of the Residuals, the Company

1 estimates the future rate of prepayments, prepayment penalties that we  
2 will receive, delinquencies, defaults and default loss severity as they  
3 affect the amount and timing of estimated cash flows. . . . The  
4 Company bases these estimates on historical loss data for the loans,  
5 the specific characteristics of the loans and the general economic  
6 environment. . . . The Company performs an evaluation of the  
7 Residuals quarterly, taking into consideration trends in actual cash  
8 flow performance, industry and economic developments, as well as  
9 other relevant factors.

10 \* \* \*

11 *Allowance for Repurchase Losses*

12 Generally, repurchases are required within 90 days from the  
13 date the loans are sold. Occasionally, we may repurchase loans after  
14 90 days have elapsed. . . . As of September 30, 2005 and December  
15 31, 2004, the repurchase allowance totaled \$5.9 million and \$6.3  
16 million, respectively, and approximately \$10.0 billion and \$8.3 billion  
17 of loans, respectively, were subject to repurchase, generally  
18 representing loans sold during the prior quarter. [Emphasis added.]

19 376. The third quarter 2005 Form 10-Q stated as follows regarding the  
20 Company's underwriting standards:

21 We originate and purchase primarily first mortgage products  
22 nationwide. Historically, we have focused on lending to individuals  
23 whose borrowing needs are generally not fulfilled by traditional  
24 financial institutions because they do not satisfy the credit,  
25 documentation or other underwriting standards prescribed by  
26 conventional mortgage lenders and loan buyers. We originate and  
27 purchase mortgage loans on the basis of the borrower's ability to  
28 repay the loan, the borrower's historical pattern of debt repayment and

1 the amount of equity in the borrower's property, as measured by the  
2 borrower's loan-to-value ratio, or LTV. We believe we have  
3 developed a comprehensive and sophisticated process of credit  
4 evaluation and risk-based pricing.

5 \* \* \*

6 We have experienced considerable growth of our interest-only  
7 product. During the nine months ended September 30, 2005,  
8 originations of interest-only loans totaled \$13.7 billion, or 34.0%, of  
9 total originations. Interest-only originations during the nine months  
10 ended September 30, 2004 totaled \$5.7 billion, or 18.6%, of total  
11 originations during the period. We believe our stricter underwriting  
12 guidelines and the stronger credit characteristics of these loans  
13 mitigate their perceived higher risk.

14 \* \* \*

15 For the nine months ended September 30, 2005, full  
16 documentation loans as a percentage of originations totaled \$21.6  
17 billion, or 53.5%, limited documentation loans totaled \$1.2 billion, or  
18 3.0%, and stated documentation loans totaled \$17.6 billion, or 43.5%.  
19 . . . We designed our underwriting standards and quality assurance  
20 programs to ensure that loan quality is consistent and meets our  
21 guidelines, even as the documentation type mix varies. [Emphasis  
22 added.]

23 377. The third quarter 2005 Form 10-Q provided the following information  
24 regarding New Century's internal controls and procedures:

25 As of September 30, 2005, the end of our third quarter, our  
26 management, including our Chief Executive Officer, Vice Chairman –  
27 Finance, Chief Financial Officer and President and Chief Operating  
28 Officer, has evaluated the effectiveness of our disclosure controls and



1 procedures, as such term is defined in Rule 13a-15(e) promulgated  
2 under the Securities Exchange Act of 1934, as amended. Based on  
3 that evaluation, our Chief Executive Officer, Vice Chairman –  
4 Finance, Chief Financial Officer and President and Chief Operating  
5 Officer concluded, as of September 30, 2005, that our disclosure  
6 controls and procedures were effective to ensure that information  
7 required to be disclosed by us in reports that we file or submit under  
8 the Securities Exchange Act of 1934 is recorded, processed,  
9 summarized and reported within the time periods specified in the  
10 Securities and Exchange Commission rules and forms. There was no  
11 change in our internal control over financial reporting during the  
12 quarter ended September 30, 2005 that materially affected, or is  
13 reasonably likely to materially affect, our internal control over  
14 financial reporting. [Emphasis added.]

15 378. Accompanying the third quarter 2005 Form 10-Q as exhibits were  
16 certifications signed by Defendants Cole, Morrice, Gotschall and Dodge in the  
17 form set forth in paragraph 349 above.

18 379. The above-referenced statements from the New Century Officer  
19 Defendants' press release, conference call and Form 10-Q for the third quarter  
20 ended September 30, 2005 were materially misstated and omitted to state material  
21 facts required therein or necessary to make the statements contained therein not  
22 misleading, at all times throughout the Class Period. Contrary to the above-  
23 referenced statements, New Century's financial statements for the third quarter  
24 ended September 30, 2005 were not presented in accordance with GAAP, the  
25 Company's internal controls suffered from significant deficiencies and material  
26 weaknesses and New Century's underwriting standards and loan quality were  
27 significantly worse than described.  
28

1           380. As set forth in paragraphs 137-39, 141, 144, 146, 148, 150, 153-55,  
2 158, 161 above, numerous former New Century employees with first-hand  
3 knowledge report that contrary to the Defendant Morrice's statements on  
4 November 3, 2005 regarding the purportedly more "favorable credit  
5 characteristics" of the Company's recent loan production and the New Century  
6 Officer Defendants' statements in the 2005 third quarter 10-Q regarding a  
7 purported "comprehensive and sophisticated process of credit evaluation," "strict  
8 underwriting guidelines" and "underwriting standards and quality assurance  
9 programs to ensure that loan quality is consistent" and undisclosed to investors,  
10 New Century's underwriting practices were actually loosened substantially by the  
11 time of these statements so that the Company could continue to reach record  
12 mortgage origination volume notwithstanding intense industry competition, rising  
13 interest rates, and a softening of the real estate market. Further, the 2005 data set  
14 forth in paragraphs 126-35 above establish that New Century's underwriting  
15 standards were loosened precipitously before and during the Class Period, such  
16 that its loans became delinquent and were repurchased at substantially higher rates  
17 as compared to the loans it made in 2003-04, and with such speed that generic  
18 market forces could not be to blame. The data further demonstrate that given its  
19 loosened underwriting, New Century was far more likely to issue a sub-prime  
20 borrower a mortgage loan than were its peers. According to CWs 3, 5, 6, 8, 11, 13,  
21 15, 17, 20, 21, 22, 25 and 28, as early as 2003, and progressively from 2004-05,  
22 New Century began originating riskier and riskier mortgage loans because of  
23 increased loan to values, including 80/20 100% financing loans requiring no down  
24 payment, and began increasing the amount of stated income loans, which, starting  
25 in 2004-05, were being offered to W-2 wage earners who should have been able to  
26 verify their stated income, but were not required to. According to CWs 13, 17, 20,  
27 25 and 28, the Company's underwriting was loosened and the Company was  
28 issuing "riskier and riskier" mortgage loans beginning as early as 2003, with

1 “heavy pressure” to close loans and operations managers signing off on the  
2 approval of riskier loans. Quarterly loan performance data set forth in paragraph  
3 111 further demonstrates a trend of increasing delinquencies from the first quarter  
4 of 2004 through the third quarter of 2005. The fact that delinquencies continued to  
5 increase thereafter at a dramatic rate further demonstrates that contrary to  
6 Defendant Morrice’s November 3, 2005 statements, New Century’s underwriting  
7 was not resulting in loans with more “favorable credit characteristics,” but far  
8 worse as New Century’s underwriting was substantially loosened to produce  
9 growing origination volume.

10 381. In addition, as set forth in paragraphs 173-78, 183, 187, 189, 196  
11 above, by the time of these statements, the Examiner’s Report details facts  
12 demonstrating “serious loan quality issues at [New Century] beginning as early as  
13 2004;” numerous “red flags” relating to loan quality; and the failure of New  
14 Century’s Senior Management and Board of Directors to devote sufficient attention  
15 to improving loan quality until the final quarter of 2006, when it “was too late to  
16 prevent the consequences of longstanding loan quality problems in an adversely  
17 changing market.” “Rather, New Century continued to focus on generating greater  
18 quantities of ever riskier loans, devoting little effort to such basic issues as making  
19 sure that the Company’s loan origination and underwriting policies and procedures  
20 were followed to avoid kickouts of loans offered for sale.” Contrary to the above  
21 statements, New Century “devoted its resources to generating high volumes of  
22 loans, with relatively little attention to loan quality” and did not even have any  
23 “formal exceptions policy.” The Examiner found these ever-increasing risks to be  
24 “a veritable ticking time bomb.” As a result of these findings, the Examiner  
25 concluded that the public statements made by New Century regarding the  
26 purported credit characteristics of its loans and strict and consistent underwriting  
27 guidelines were “not supportable” and without “justifiable basis” when made.  
28

1           382. As set forth in paragraph 75 above, according to CW 1, New Century  
2 had intentionally delayed payment of valid repurchase claims, causing a massive  
3 backlog of repurchase claims, 80% of which, or hundreds of millions of dollars  
4 worth, were 18 to 24 months old as of September 2006 – meaning that the backlog  
5 went back to the 2005 first quarter. According to CW 1, these repurchase claims  
6 already were determined to be valid and should have been paid 18 to 24 months  
7 earlier, but the Company delayed payment of them in an effort to cause its  
8 previously reported financial results to appear better than they actually were.  
9 According to CW 1, by the end of the 2004 fourth quarter, New Century already  
10 had a large backlog of valid, unfunded repurchase claims. Accordingly, hundreds  
11 of millions of dollars worth of these valid repurchase claims should have been  
12 funded prior to the start of the Class Period in May 2005, but were not. As set  
13 forth in paragraph 77 above, according to CW 3, New Century was “sitting on  
14 repurchase requests” hoping to ride out the market and the Company failed to have  
15 good internal reporting of repurchase information prior to 2006. In addition,  
16 according to the internal New Century document quoted in paragraph 79 above,  
17 61% of the Company’s outstanding repurchase claims, or \$167 million worth, had  
18 been received by July 31, 2005. The failure to properly account for these  
19 outstanding repurchase claims caused material errors in the Company’s 2005 third  
20 quarter reported financial results and resulted from material weaknesses in the  
21 Company’s internal controls at the time the claims were received and processed,  
22 but not funded, which included the time of the above statements. Accordingly, the  
23 material financial misstatements and material weaknesses in internal controls  
24 relating to the repurchase claims backlog eventually reported by the Company on  
25 February 7, 2007 and, thereafter, were in existence at the time of the above  
26 statements, rendering them materially false and misleading when made. Moreover,  
27 Defendant Morrice’s November 3, 2005 statement that New Century had “not seen  
28 any meaningful spike in first payment defaults, certainly something we track

1 carefully, but at this point that has not been our experience,” and Defendant  
2 Dodge’s November 3, 2005 statement that first payment defaults were “very  
3 modest over the last 12 months,” were materially misleading and incomplete when  
4 made given the massive undisclosed repurchase claims backlog in existence at the  
5 time of these statements.

6 383. As set forth in paragraphs 91-93, 96-97 above, the facts revealed by  
7 the Examiner’s Report further demonstrate that “beginning no later than 2004,  
8 New Century was receiving repurchase requests related to loans sold outside of the  
9 previous 90-day period and it was taking much longer than 90 days to evaluate and  
10 process repurchase requests and repurchase loans.” In violation of GAAP, “New  
11 Century was not reserving, however, for these loans that it might be required to  
12 repurchase, and on which it might incur losses and expenses, but for which no  
13 reserve was provided.” By January 26, 2005, the Examiner found “clear indication  
14 that New Century Accounting Department personnel knew that many loans that  
15 were ultimately repurchased in 2004 were Backlog Claims. . . . Notwithstanding  
16 this information, New Century did nothing to adjust its methodology for estimating  
17 the quantity of loans that might need to be repurchased as of the end of a financial  
18 reporting period.” In addition, at the time of the above-reported 2005 third quarter  
19 earnings and at all times throughout 2005, New Century “perplexingly” further  
20 violated GAAP by failing to reserve for Interest Recapture as set forth in  
21 paragraphs 96-97 above. Consistent with the Examiner’s Report, New Century’s  
22 above-quoted description of its Allowance for Repurchase Losses was materially  
23 misleading when made as it stated that the Company “occasionally” may  
24 repurchase loans after 90 days without disclosing the then-existing repurchase  
25 claims backlog.

26 384. As set forth in paragraphs 106-08 above, the facts revealed by the  
27 Examiner’s Report demonstrate that New Century’s Residual Interests were  
28 overstated at the time of the above-reported 2005 third quarter earnings and at all

1 times throughout 2005-06 as “New Century insisted on using unduly low discount  
2 rates;” New Century “repeatedly resisted warnings from specialists at KPMG  
3 [starting at least for its quarterly review for the first quarter of 2005], who warned  
4 that the discount rates New Century was using were below those used by most of  
5 its peers;” “New Century relied for far too long on antiquated and flawed  
6 internally-developed Excel-based models to value residual interests;” and New  
7 Century failed “to adjust its prepayment rates to reflect changing market conditions  
8 . . . contrary to the advice it consistently received as far back as the first quarter of  
9 2005 from KPMG’s SFG, which repeatedly expressed concern about the  
10 Company’s use of low prepayment speed assumptions.”

11 385. As set forth in paragraphs 194-96 above, the facts revealed by the  
12 Examiner’s Report demonstrate that that New Century’s internal controls suffered  
13 from significant deficiencies and material weaknesses at the time of the above-  
14 reported 2005 third quarter internal control certifications and statements and at all  
15 times throughout 2005-06 as the result of “deeply-rooted and long-standing  
16 failures to establish and monitor adequate internal controls over financial  
17 reporting;” including failures to “develop effective policies and procedures for  
18 performing accounting estimates requiring the exercise of considerable judgment;”  
19 and to “remediate internal control deficiencies that existed at year-end 2004.”  
20 Among the deficiencies that New Century failed to remedy from year-end 2004  
21 were “key controls surrounding the repurchase reserve estimation process;” “the  
22 allowance for loan losses methodology and rationale;” and “controls related to the  
23 hedging and derivatives process.” “New Century also failed to establish sufficient  
24 internal controls with respect to its residual interest valuation process.” As  
25 demonstrated by the facts obtained by the Examiner (as well as the numerous other  
26 facts set forth in paragraphs 380-81 above), New Century also suffered throughout  
27 2005 (and 2006) from “significant deficiencies and material weaknesses in  
28 Management’s internal control structure related to loan quality . . . .”

1           **D.     2005 Fourth Quarter Statements**

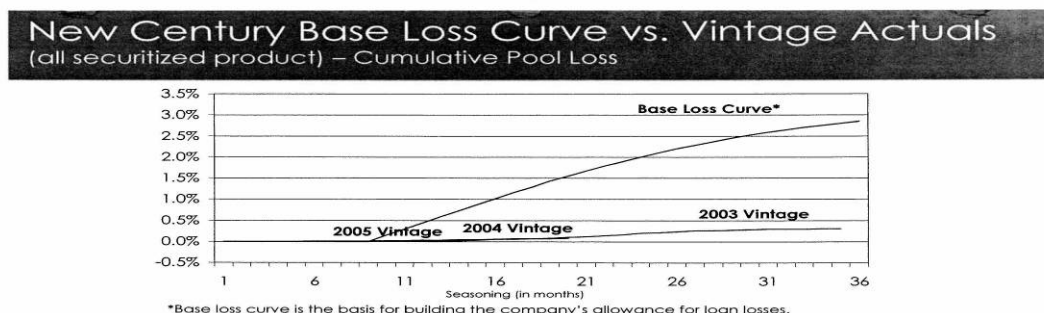
2           386. On February 2, 2006, the New Century Officer Defendants Cole,  
3 Morrice, Gotschall and Dodge issued a press release reporting the Company's  
4 earnings results for the fourth quarter and year ended December 31, 2005. The  
5 Company reported net earnings for the fourth quarter of \$116.6 million, or \$2.00  
6 per share, and net earnings for the year ended December 31, 2005 of \$416.5  
7 million, or \$7.17 per share. The press release contained income statement and  
8 balance sheet data purporting to reflect the Company's financial performance and  
9 assets and liabilities for the three months and the year ended December 31, 2005 in  
10 accordance with GAAP. The press release reported New Century's Residual  
11 Interests as of December 31, 2005 at \$234,930,000. The press release also  
12 contained the following quoted statement from Defendant Cole:

13           During a year of rising interest rates, intense competition and a  
14 challenging secondary market, we delivered record loan production,  
15 reduced loan acquisition costs to a historic low, grew our REIT  
16 portfolio of mortgage loans to \$13.9 billion, and completed a strategic  
17 acquisition that broadened our product offerings and marketing  
18 channels. All of these accomplishments were achieved while  
19 delivering four consecutive dividend increases.

20           387. On February 2, 2006, the New Century Officer Defendants also held a  
21 conference call with analysts and investors. During the call, Defendants Cole,  
22 Dodge and Morrice reviewed the Company's reported financial results for the  
23 quarter and year ended December 31, 2005. During the call, Defendant Cole  
24 stated:

25           [O]ur 60-plus-day delinquency rate was 3.36 at the REITs portfolio  
26 and 4.10 at the TRS which are both significantly lower than  
27 anticipated, indicating the good quality of loans and the great  
28 performance of those assets. [Emphasis added.]

During the call, Defendant Dodge referred to the following a slide (made available over the Internet):



Dodge described the slide as follows:

A strong housing market has certainly contributed to our performance but we have also benefited from our strong credit and underwriting standards and servicing platform. These factors are particularly evident when we compare our performance to our peers, third party comparisons of performance generally indicate that we outperform our peer group. The black line on the chart represents our modeled losses based on the entire history of our loan performance over ten years. It includes performance of loans originated years ago with much lower FICO scores and other less favorable credit characteristics compared to recent production. [Emphasis added.]

388. On or about March 16, 2006, the New Century Officer Defendants Cole, Morrice, Gotschall and Dodge filed the Company's Form 10-K for the quarter and year ended December 31, 2005. The 2005 Form 10-K contained consolidated balance sheets and consolidated statements of earnings purporting to reflect the Company's financial performance and assets and liabilities for the three months and year ended December 31, 2005 in accordance with GAAP. The 2005



1 Form 10-K also stated the following regarding New Century's underwriting  
2 standards:

3 Our loan origination standards and procedures are designed to  
4 produce high quality loans. These standards and procedures  
5 encompass underwriter qualifications and authority levels, appraisal  
6 review requirements, fraud prevention, funds disbursement controls,  
7 training of our employees and ongoing review of our employees'  
8 work. We help to ensure that our origination standards are met by  
9 employing accomplished and season managers, underwriters and  
10 processors and through the extensive use of technology. We also have  
11 a comprehensive training program for the continuing development of  
12 both our existing staff and new hires. In addition, we employ  
13 proprietary underwriting systems in our loan origination process that  
14 improve the consistency of underwriting standards, assess collateral  
15 adequacy and help to prevent fraud, while at the same time increasing  
16 productivity.

17 \* \* \*

18 We have experienced considerable growth of our interest-only  
19 product. During the year ended December 31, 2005, originations of  
20 adjustable-rate, interest-only loans totaled \$16.6 billion, or 29.6%, of  
21 total originations. Interest-only originations during the year ended  
22 December 31, 2004 totaled \$8.1 billion, or 19.3%, of total originations  
23 during the period. We believe our strict underwriting guidelines and  
24 the stronger credit characteristics of these loans mitigate their  
25 perceived higher risk.

26 \* \* \*

27 For the year ended December 31, 2005, full documentation loans as a  
28 percentage of originations totaled \$30.4 billion, or 54.2%, limited

1 documentation loans totaled \$1.5 billion, or 2.7%, and stated  
2 documentation loans totaled \$24.2 billion, or 43.1%. . . . We  
3 designed our underwriting standards and quality assurance programs  
4 to ensure that loan quality is consistent and meets our guidelines, even  
5 as the mix among full, limited and stated documentation varies.

6 \* \* \*

7 We adhere to high origination standards in order to sell our loan  
8 products in the secondary mortgage market. [Emphasis added.]

9 The 2005 Form 10-K was signed by, among others, New Century Officer  
10 Defendants Cole, Morrice, Gotschall and Dodge.

11 389. The 2005 Form 10-K reported New Century's Residual Interests as of  
12 December 31, 2005 at \$234,930,000 and Allowance for Loan Repurchase Losses  
13 as of December 31, 2005 at \$7,000,000. The 2005 Form 10-K purported to  
14 describe the Company's "Critical Accounting Policies" including New Century's  
15 methods for calculating "Residual Interests in Securitizations" and "Allowance for  
16 Repurchase Losses:"

17 *Residual Interests and Securitizations Structured as Sales*

18 [T]he Residuals described above are a significant asset of the  
19 Company. In determining the value of the Residuals, the Company  
20 estimates the future rate of prepayments, prepayment penalties that we  
21 will receive, delinquencies, defaults and default loss severity as they  
22 affect the amount and timing of estimated cash flows. . . . The  
23 Company bases these estimates on historical loss data for the loans,  
24 the specific characteristics of the loans and the general economic  
25 environment. . . . The Company performs an evaluation of Residual  
26 interests in securitizations quarterly, taking into consideration trends  
27 in actual cash flow performance, industry and economic  
28 developments, as well as other relevant factors.

\* \* \*

*Allowance for Repurchase Losses*

Generally, repurchases are required within 90 days from the date the loans are sold. Occasionally, we may repurchase loans after 90 days have elapsed. . . . As of December 31, 2005 and December 31, 2004, the repurchase allowance totaled \$7.0 million and \$6.3 million, respectively. Approximately \$10.7 billion and \$8.3 billion of loans were subject to repurchase, representing loans sold during the fourth quarter of 2005 and the fourth quarter of 2004, respectively. We believe the allowance for repurchase losses is adequate as of December 31, 2005 and 2004. [Emphasis added.]

390. The 2005 Form 10-K provided the following information regarding New Century's internal controls and procedures:

As of December 31, 2005, the end of our fourth quarter, our management, including our Chief Executive Officer, Vice Chairman-Finance, Chief Financial Officer, and President and Chief Operating Officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934. Based on that evaluation, our Chief Executive Officer, Vice Chairman-Finance, Chief Financial Officer and President and Chief Operating Officer concluded, as of December 31, 2005, that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

\* \* \*

1 There have not been any changes in our internal control over financial  
2 reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f)  
3 under the Exchange Act) during the quarter to which this report  
4 relates that have materially affected, or are likely to materially affect,  
5 our internal control over financial reporting. [Emphasis added.]

6 391. Accompanying the 2005 Form 10-K as exhibits were certifications  
7 signed by Defendants Cole, Morrice, Gotschall and Dodge in the form set forth in  
8 paragraph 349 above.

9 392. The 2005 Form 10-K contained a “Report of Independent Registered  
10 Public Accounting Firm” from Defendant KPMG dated March 15, 2006 which  
11 stated:

12 We have audited the accompanying consolidated balance sheets of  
13 New Century Financial Corporation and subsidiaries as of  
14 December 31, 2005 and 2004, and the related consolidated statements  
15 of income, comprehensive income, changes in stockholders’ equity,  
16 and cash flows for each of the years in the three-year period ended  
17 December 31, 2005. These consolidated financial statements are the  
18 responsibility of the Company’s management. Our responsibility is to  
19 express an opinion on these consolidated financial statements based  
20 on our audits.

21  
22 We conducted our audits in accordance with the standards of the  
23 Public Company Accounting Oversight Board (United States). Those  
24 standards require that we plan and perform the audit to obtain  
25 reasonable assurance about whether the financial statements are free  
26 of material misstatement. An audit includes examining, on a test  
27 basis, evidence supporting the amounts and disclosures in the  
28 financial statements. An audit also includes assessing the accounting

1 principles used and significant estimates made by management, as  
2 well as evaluating the overall financial statement presentation. We  
3 believe that our audits provide a reasonable basis for our opinion.

4  
5 In our opinion, the consolidated financial statements referred to above  
6 present fairly, in all material respects, the financial position of New  
7 Century Financial Corporation and subsidiaries as of December 31,  
8 2005 and 2004, and the results of their operations and their cash flows  
9 for each of the years in the three-year period ended December 31,  
10 2005, in conformity with U.S. generally accepted accounting  
11 principles.

12  
13 We also have audited, in accordance with the standards of the Public  
14 Company Accounting Oversight Board (United States), the  
15 effectiveness of the Company's internal control over financial  
16 reporting as of December 31, 2005, based on criteria established in  
17 Internal Control — Integrated Framework issued by the Committee of  
18 Sponsoring Organizations of the Treadway Commission (COSO), and  
19 our report dated March 15, 2006 expressed an unqualified opinion on  
20 management's assessment of, and the effective operation of, internal  
21 control over financial reporting. [Emphasis added.]

22 393. The 2005 Form 10-K also contained a "Report of Independent  
23 Registered Public Accounting Firm" on internal controls from Defendant KPMG  
24 dated March 15, 2006 which stated:

25 We have audited management's assessment, included in the  
26 accompanying *Management's Report on Internal Control Over*  
27 *Financial Reporting*, that New Century Financial Corporation and  
28 subsidiaries maintained effective internal control over financial

1 reporting as of December 31, 2005, based on criteria established in  
2 Internal Control — Integrated Framework issued by the Committee of  
3 Sponsoring Organizations of the Treadway Commission (COSO).  
4 The Company's management is responsible for maintaining effective  
5 internal control over financial reporting and for its assessment of the  
6 effectiveness of internal control over financial reporting. Our  
7 responsibility is to express an opinion on management's assessment  
8 and an opinion on the effectiveness of the Company's internal control  
9 over financial reporting based on our audit.

10  
11 We conducted our audit in accordance with the standards of the Public  
12 Company Accounting Oversight Board (United States). Those  
13 standards require that we plan and perform the audit to obtain  
14 reasonable assurance about whether effective internal control over  
15 financial reporting was maintained in all material respects. Our audit  
16 included obtaining an understanding of internal control over financial  
17 reporting, evaluating management's assessment, testing and  
18 evaluating the design and operating effectiveness of internal control,  
19 and performing such other procedures as we considered necessary in  
20 the circumstances. We believe that our audit provides a reasonable  
21 basis for our opinion.

22  
23 A company's internal control over financial reporting is a process  
24 designed to provide reasonable assurance regarding the reliability of  
25 financial reporting and the preparation of financial statements for  
26 external purposes in accordance with generally accepted accounting  
27 principles. A company's internal control over financial reporting  
28 includes those policies and procedures that (1) pertain to the

1 maintenance of records that, in reasonable detail, accurately and fairly  
2 reflect the transactions and dispositions of the assets of the company;  
3 (2) provide reasonable assurance that transactions are recorded as  
4 necessary to permit preparation of financial statements in accordance  
5 with generally accepted accounting principles, and that receipts and  
6 expenditures of the company are being made only in accordance with  
7 authorizations of management and directors of the company; and  
8 (3) provide reasonable assurance regarding prevention or timely  
9 detection of unauthorized acquisition, use, or disposition of the  
10 company's assets that could have a material effect on the financial  
11 statements.

12  
13 Because of its inherent limitations, internal control over financial  
14 reporting may not prevent or detect misstatements. Also, projections  
15 of any evaluation of effectiveness to future periods are subject to the  
16 risk that controls may become inadequate because of changes in  
17 conditions, or that the degree of compliance with the policies or  
18 procedures may deteriorate.

19  
20 In our opinion, management's assessment that New Century Financial  
21 Corporation and subsidiaries maintained effective internal control  
22 over financial reporting as of December 31, 2005, is fairly stated, in  
23 all material respects, based on the COSO criteria. Also, in our  
24 opinion, New Century Financial Corporation and subsidiaries  
25 maintained, in all material respects, effective internal control over  
26 financial reporting as of December 31, 2005, based on the COSO  
27 criteria.  
28

1 New Century Financial Corporation acquired certain assets and  
2 assumed certain liabilities of RBC Mortgage Company during 2005,  
3 and management excluded from its assessment of the effectiveness of  
4 New Century Financial Corporation's internal control over financial  
5 reporting as of December 31, 2005, RBC Mortgage Company's  
6 internal control over financial reporting associated with total assets of  
7 \$1.2 billion and total revenues of \$59.6 million included in the  
8 (consolidated) financial statements of New Century Financial  
9 Corporation and subsidiaries as of and for the year ended  
10 December 31, 2005. Our audit of internal control over financial  
11 reporting of New Century Financial Corporation also excluded an  
12 evaluation of the internal control over financial reporting of RBC  
13 Mortgage Company.

14  
15 We also have audited, in accordance with the standards of the Public  
16 Company Accounting Oversight Board (United States), the  
17 consolidated balance sheets of New Century Financial Corporation  
18 and subsidiaries as of December 31, 2005 and 2004, and the related  
19 consolidated statements of income, comprehensive income, changes  
20 in stockholders' equity, and cash flows for each of the years in the  
21 three-year period ended December 31, 2005, and our report dated  
22 March 15, 2006 expressed an unqualified opinion on those  
23 consolidated financial statements. [Emphasis added.]

24 394. The above-referenced statements from the New Century Officer  
25 Defendants' press release, conference call and Form 10-K and KPMG for the  
26 fourth quarter and year ended December 31, 2005 were materially misstated and  
27 omitted to state material facts required therein or necessary to make the statements  
28 contained therein not misleading, at all times throughout the Class Period.



1 Contrary to the above-referenced statements, New Century's financial statements  
2 for the fourth quarter and year ended December 31, 2005 were not presented in  
3 accordance with GAAP, the Company's internal controls suffered from significant  
4 deficiencies and material weaknesses, KPMG's audits of New Century's financial  
5 statements and internal controls were not performed in accordance with GAAS and  
6 New Century's underwriting standards and loan quality were significantly worse  
7 than described.

8 395. As set forth in paragraphs 137-68 above, numerous former New  
9 Century employees with first-hand knowledge report that contrary to Defendant  
10 Cole's statement on February 2, 2006 regarding the purported "good quality of  
11 loans" New Century was originating; Defendant Dodge's statements on February  
12 2, 2006 regarding New Century's purported "strong credit and underwriting  
13 standards" and the purportedly more "favorable credit characteristics" of its recent  
14 loan production; and Defendants Cole, Morrice, Gotschall and Dodge's statements  
15 in New Century's Form 10-K regarding "loan origination standards and  
16 procedures" that were purportedly designed to produce "high quality loans;" "high  
17 origination standards," "proprietary underwriting systems" that purportedly  
18 improved the "consistency of underwriting standards" and "strict underwriting  
19 guidelines" and undisclosed to investors, New Century's underwriting practices  
20 were actually loosened substantially by the time of these statements so that the  
21 Company could continue to reach record mortgage origination volume  
22 notwithstanding intense industry competition, rising interest rates and a softening  
23 of the real estate market. Further, as the data set forth in paragraphs 126-35 above  
24 establish, New Century substantially loosened its underwriting in 2005, such that  
25 its loans exhibited drastically higher delinquency and repurchase rates as soon as  
26 they were made and with such speed that generic market forces could not be to  
27 blame. The data further establish that New Century, given its loosened  
28 underwriting, was far more likely to issue a sub-prime borrower a mortgage loan

1 than were its peers. According to CWs 3, 5, 6, 8, 9, 11, 12, 13, 15, 16, 17, 18, 20,  
2 21, 22, 23, 25, 26, 28 and 31 before any of these statements were made, New  
3 Century already had loosened substantially its underwriting so that it could  
4 increase loan volume at the expense of loan quality and, rather than maintain  
5 consistent underwriting standards, actually allowed repeated exceptions to its  
6 underwriting standards, further reducing its loan quality. According to these  
7 witnesses, as early as 2003, and progressively from 2004-05, New Century began  
8 originating riskier and riskier mortgage loans because of increased loan to values,  
9 including 80/20 100% financing loans requiring no down payment, and began  
10 increasing the amount of stated income loans which, starting in 2004-05, were  
11 being offered to W-2 wage earners who should have been able to verify their stated  
12 income, but were not required to. Quarterly loan performance data set forth in  
13 paragraph 111 further demonstrate a trend of increasing delinquencies from the  
14 first quarter of 2004 through the fourth quarter of 2005. The fact that  
15 delinquencies continued to increase thereafter at a dramatic rate further  
16 demonstrates that contrary to the above-quoted statements, New Century's  
17 underwriting was not designed to produce "high quality loans," but substantially  
18 loosened to produce growing origination volume at the expense of loan quality.

19 396. In addition, as set forth in paragraphs 173-90, 196 above, by the time  
20 of these statements, the Examiner's Report details facts demonstrating "serious  
21 loan quality issues at [New Century] beginning as early as 2004;" numerous "red  
22 flags" relating to loan quality, including "striking" red flags throughout 2005 and  
23 "alarming" trends by February 2006; and the failure of New Century's Senior  
24 Management and Board of Directors to devote sufficient attention to improving  
25 loan quality until the final quarter of 2006, when it "was too late to prevent the  
26 consequences of longstanding loan quality problems in an adversely changing  
27 market." "Rather, New Century continued to focus on generating greater quantities  
28 of ever riskier loans, devoting little effort to such basic issues as making sure that

1 the Company's loan origination and underwriting policies and procedures were  
2 followed to avoid kickouts of loans offered for sale.” Contrary to the above  
3 statements, New Century “devoted its resources to generating high volumes of  
4 loans, with relatively little attention to loan quality” and did not even have any  
5 “formal exceptions policy.” The Examiner found these ever-increasing risks to be  
6 “a veritable ticking time bomb.” As a result of these findings, the Examiner  
7 concluded that the public statements made by New Century regarding “high  
8 origination standards” designed to produce “high quality loans” were not correct  
9 when made as, in fact, “New Century did not produce ‘high quality’ loans or have  
10 ‘high origination standards.’”

11 397. As set forth in paragraph 73 above, New Century has admitted errors  
12 in the Company's previously-filed annual financial statements for its fiscal year-  
13 ended December 31, 2005 with respect to both the accounting and reporting of  
14 loan repurchase losses and the Company's valuation of Residual Interests and a  
15 “more likely than not” material overstatement in the Company's previously-issued  
16 2005 financial statements. In addition, as set forth in paragraphs 66-119 and 191-  
17 96 above, facts developed from Lead Counsel's investigation and set forth in the  
18 Examiner's Report further demonstrate that the Company's financial statements  
19 were materially misstated in violation of GAAP at the time of these February 2,  
20 2006 and March 16, 2006 statements, and the Company's internal control  
21 certifications were materially misstated when issued.

22 398. As set forth in paragraph 75 above, according to CW 1, New Century  
23 had intentionally delayed payment of valid repurchase claims, causing a massive  
24 backlog of repurchase claims, 80% of which, or hundreds of millions of dollars  
25 worth, were 18 to 24 months old as of September 2006 – meaning that the backlog  
26 went back to the 2005 first quarter. According to CW 1, these repurchase claims  
27 already were determined to be valid and should have been paid 18 to 24 months  
28 earlier, but the Company delayed payment of them in an effort to cause its

1 previously reported financial results to appear better than they actually were.  
2 According to CW 1, by the end of the 2004 fourth quarter, New Century already  
3 had a large backlog of valid, unfunded repurchase claims. Accordingly, hundreds  
4 of millions of dollars worth of these valid repurchase claims should have been  
5 funded prior to the start of the Class Period in May 2005, but were not. As set  
6 forth in paragraph 77 above, according to CW 3, New Century was “sitting on  
7 repurchase requests” hoping to ride out the market and the Company failed to have  
8 good internal reporting of repurchase information. In addition, according to the  
9 internal New Century document quoted in paragraph 78 above, New Century had a  
10 material repurchase claims backlog as of the end of the 2005 in excess of \$120  
11 million. The failure to properly account for these outstanding repurchase claims  
12 caused material errors in the Company’s 2005 year-end reported financial results  
13 and resulted from material weaknesses in the Company’s internal controls at the  
14 time the claims were received and processed, but not funded, which included the  
15 time the above statements were made.

16 399. As set forth in paragraphs 91-99 above, the facts revealed by the  
17 Examiner’s Report demonstrate that “beginning no later than 2004, New Century  
18 was receiving repurchase requests related to loans sold outside of the previous 90-  
19 day period and it was taking much longer than 90 days to evaluate and process  
20 repurchase requests and repurchase loans.” In violation of GAAP, “New Century  
21 was not reserving, however, for these loans that it might be required to repurchase,  
22 and on which it might incur losses and expenses, but for which no reserve was  
23 provided.” By January 26, 2005, the Examiner found “clear indication that New  
24 Century Accounting Department personnel knew that many loans that were  
25 ultimately repurchased in 2004 were Backlog Claims. . . . Notwithstanding this  
26 information, New Century did nothing to adjust its methodology for estimating the  
27 quantity of loans that might need to be repurchased as of the end of a financial  
28 reporting period.” In addition, at the time of the above-reported 2005 year-end

1 earnings, New Century “perplexingly” further violated GAAP by failing to reserve  
2 for Interest Recapture as set forth in paragraphs 96-97 above and by failing to  
3 apply LOCOM methodology consistent with industry practice and the Company’s  
4 own LOCOM policy. As set forth in paragraph 99 above, the Examiner quantified  
5 the material impact of these GAAP violations at year-end 2005 at (\$21,320,000).  
6 Consistent with the Examiner’s Report, New Century’s above-quoted description  
7 of its Allowance for Repurchase Losses was materially misleading when made as it  
8 stated that the Company “occasionally” may repurchase loans after 90 days  
9 without disclosing the then-existing repurchase claims backlog.

10 400. As set forth in paragraphs 101-08 above, at the time of these February  
11 2, 2006 and March 16, 2006 statements, New Century’s reported Residual Interests  
12 were materially overstated as these reported Residual Interests failed to account for  
13 the Company’s progressively decreasing loan quality and underwriting standards,  
14 as well as New Century’s increasing delinquencies, defaults and default loss  
15 severity throughout 2005. As set forth in paragraphs 106-08 above, the facts  
16 revealed by the Examiner’s Report demonstrate that New Century’s Residual  
17 Interests were overstated at the time of the above-reported year-end 2005 and at all  
18 times throughout 2005-06 as “New Century insisted on using unduly low discount  
19 rates;” New Century “repeatedly resisted warnings from specialists at KPMG  
20 [starting at least for its quarterly review for the first quarter of 2005], who warned  
21 that the discount rates New Century was using were below those used by most of  
22 its peers;” “New Century relied for far too long on antiquated and flawed  
23 internally-developed Excel-based models to value residual interests;” and New  
24 Century failed “to adjust its prepayment rates to reflect changing market conditions  
25 . . . contrary to the advice it consistently received as far back as the first quarter of  
26 2005 from KPMG’s SFG, which repeatedly expressed concern about the  
27 Company’s use of low prepayment speed assumptions.” The Examiner quantified  
28

1 the material impact of these GAAP violations as year-end 2005 at (\$42,300,000).  
2 Examiner's Report at 383.

3 401. As set forth in paragraphs 194-96 above, the facts revealed by the  
4 Examiner's Report demonstrate that that New Century's internal controls suffered  
5 from significant deficiencies and material weaknesses at the time of the above-  
6 reported 2005 year-end internal control certifications and statements and at all  
7 times throughout 2005-06 as the result of "deeply-rooted and long-standing  
8 failures to establish and monitor adequate internal controls over financial  
9 reporting;" including failures to "develop effective policies and procedures for  
10 performing accounting estimates requiring the exercise of considerable judgment;"  
11 and to "remediate internal control deficiencies that existed at year-end 2004."  
12 Among the deficiencies that New Century failed to remedy from year-end 2004  
13 were "key controls surrounding the repurchase reserve estimation process;" "the  
14 allowance for loan losses methodology and rationale;" and "controls related to the  
15 hedging and derivatives process." "New Century also failed to establish sufficient  
16 internal controls with respect to its residual interest valuation process." As  
17 demonstrated by the facts obtained by the Examiner (as well as the numerous other  
18 facts set forth in paragraphs 395-96 above), New Century also suffered throughout  
19 2005 (and 2006) from "significant deficiencies and material weaknesses in  
20 Management's internal control structure related to loan quality . . . ."

21 402. Accordingly, the material financial misstatements and significant  
22 deficiencies and material weaknesses in internal controls relating to the repurchase  
23 claims backlog and Residual Interests eventually reported by the Company on  
24 February 7, 2007 and, thereafter, were in existence at the time of the above  
25 statements, rendering them materially misstated when made.

26 403. In addition, as set forth in paragraphs 204-35 above in detail, KPMG's  
27 2005 audits of New Century's financial statements and internal controls were not  
28 performed in accordance with GAAS and the standards of the PCAOB as

1 represented by KPMG in the Company's 2005 Form 10-K, rendering the above-  
2 quoted statements made by KPMG materially false and misleading at the time the  
3 2005 Form 10-K was issued on or about March 16, 2006.

4 **E. 2006 First Quarter Statements**

5 404. On May 4, 2006, the New Century Officer Defendants Cole, Morrice  
6 and Dodge issued a press release reporting the Company's earnings results for the  
7 first quarter ended March 31, 2006. The Company reported net earnings for the  
8 first quarter of \$103.7 million, or \$1.79 per share. The press release reported  
9 "strong first quarter 2006 results highlighted by a 21% growth in earnings per  
10 share ('EPS'), a 17% increase in REIT taxable income, and 31% growth in  
11 mortgage loan production compared with the same period last year." The press  
12 release contained income statement and balance sheet data purporting to reflect the  
13 Company's financial performance and assets and liabilities for the three months  
14 ended March 31, 2006 in accordance with GAAP. The press release reported New  
15 Century's Residual Interests as of March 31, 2006 at \$208,791,000.

16 405. On May 4, 2006, the New Century Officer Defendants also held a  
17 conference call with analysts and investors. During the call, Defendants Cole,  
18 Dodge and Morrice reviewed the Company's reported financial results for the  
19 quarter ended March 31, 2006. During the call, Defendant Dodge stated: "[T]he  
20 credit performance in both delinquencies and losses is better than our historical  
21 experience and continues to exceed our expectations. This performance can be  
22 attributed to faster prepayments that have occurred due to the strength of the  
23 housing market as well as better credit quality and the success of our servicing  
24 platform." (Emphasis added.) In response to a specific question regarding "more  
25 activity on reps and warranties and putbacks [or repurchase claims] from some of  
26 the whole-loan buyers," Defendant Morrice stated: "I guess in terms of the  
27 putbacks, I think your antennae are correct. We see a modest rise in the tightness  
28

1 of the buyers on that. I would not call it material at this point, but a modest rise.  
2 Certainly something we want to stay on top of.” (Emphasis added.)

3 406. On or about May 10, 2006, the New Century Officer Defendants Cole,  
4 Morrice and Dodge filed the Company’s Form 10-Q for the quarter ended March  
5 31, 2006. The first quarter 2006 Form 10-Q contained consolidated balance sheets  
6 and consolidated statements of earnings purporting to reflect the Company’s  
7 financial performance and assets and liabilities for the three months ended March  
8 31, 2006 in accordance with GAAP. The Form 10-Q stated:

9 The Company has prepared the accompanying unaudited condensed  
10 consolidated financial statements in accordance with accounting  
11 principles generally accepted in the United States of America for  
12 interim financial information and with the instructions to Form 10-Q  
13 and Rule 10-01 of Regulation S-X. Accordingly, they do not include  
14 all of the information and footnotes required by generally accepted  
15 accounting principles for complete financial statements. In the  
16 opinion of management, all adjustments (consisting of normal  
17 recurring accruals) considered necessary for a fair presentation have  
18 been included. [Emphasis added.]

19 The first quarter 2006 Form 10-Q was signed by Defendants Cole, Morrice and  
20 Dodge.

21 407. The first quarter 2006 Form 10-Q reported New Century’s Residual  
22 Interests as of March 31, 2006 at \$208,791,000 and Allowance for Loan  
23 Repurchase Losses as of March 31, 2006 at \$8,900,000. The first quarter 2006  
24 Form 10-Q purported to describe the Company’s “Critical Accounting Policies”  
25 including New Century’s methods for calculating “Residual Interests in  
26 Securitizations” and “Allowance for Repurchase Losses:”

27 *Residual Interests in Securitizations*  
28



1 [T]he Residuals described above are a significant asset of the  
2 Company. In determining the value of the Residuals, the Company  
3 estimates the future rate of prepayments, prepayment penalties that we  
4 will receive, delinquencies, defaults and default loss severity as they  
5 affect the amount and timing of estimated cash flows. . . . The  
6 Company estimates prepayments by evaluating historical prepayment  
7 performance of our loans and the impact of current trends. . . . The  
8 Company performs an evaluation of the Residuals quarterly, taking  
9 into consideration trends in actual cash flow performance, industry  
10 and economic developments, as well as other relevant factors.

11 \* \* \*

12 *Allowance for Repurchase Losses*

13 Generally, repurchases are required within 90 days from the  
14 date the loans are sold. Occasionally, we may repurchase loans after  
15 90 days have elapsed. . . . As of March 31, 2006 and December 31,  
16 2005, the repurchase allowance totaled \$8.9 million and \$7.0 million,  
17 respectively . . . . We believe the allowance for repurchase losses is  
18 adequate as of March 31, 2006 and December 31, 2005. [Emphasis  
19 added.]

20 408. The first quarter 2006 Form 10-Q stated as follows regarding the  
21 Company's underwriting standards:

22 We originate and purchase primarily first mortgage loans nationwide.  
23 Historically, we have focused on lending to individuals whose  
24 borrowing needs are generally not fulfilled by traditional financial  
25 institutions because they do not satisfy the credit, documentation or  
26 other underwriting standards prescribed by conventional mortgage  
27 lenders and loan buyers.

28 \* \* \*

1 For the three months ended March 31, 2006, full documentation  
2 loans as a percentage of total mortgage loan originations were \$7.2  
3 billion, or 53.9%, limited documentation loans were \$301.1 million,  
4 or 2.2%, and stated documentation loans were \$5.9 billion, or 43.9%.  
5 . . . We designed our underwriting standards and quality assurance  
6 programs to ensure that loan quality is consistent and meets our  
7 guidelines, even as the documentation type mix varies. [Emphasis  
8 added.]

9 409. The first quarter 2006 Form 10-Q provided the following information  
10 regarding New Century's internal controls and procedures:

11 As of March 31, 2006, the end of our first quarter, our management,  
12 including our Chief Executive Officer, Chief Financial Officer and  
13 President and Chief Operating Officer, has evaluated the effectiveness  
14 of our disclosure controls and procedures, as such term is defined in  
15 Rule 13a-15(e) promulgated under the Securities Exchange Act of  
16 1934, as amended. Based on that evaluation, our Chief Executive  
17 Officer, Chief Financial Officer and President and Chief Operating  
18 Officer concluded, as of March 31, 2006, that our disclosure controls  
19 and procedures were effective to ensure that information required to  
20 be disclosed by us in reports that we file or submit under the  
21 Securities Exchange Act of 1934 is recorded, processed, summarized  
22 and reported within the time periods specified in the Securities and  
23 Exchange Commission rules and forms. There was no change in our  
24 internal control over financial reporting during the quarter ended  
25 March 31, 2006 that materially affected, or is reasonably likely to  
26 materially affect, our internal control over financial reporting.  
27 [Emphasis added.]  
28

1           410. Accompanying the first quarter 2006 Form 10-Q as exhibits were  
2           certifications signed by Defendants Cole, Morrice and Dodge in the form set forth  
3           in paragraph 349 above.

4           411. The above-referenced statements from the New Century Officer  
5           Defendants' press release, conference call and Form 10-Q for the first quarter  
6           ended March 31, 2006 were materially misstated and omitted to state material facts  
7           required therein or necessary to make the statements contained therein not  
8           misleading, at all times throughout the Class Period. Contrary to the above-  
9           referenced statements, New Century's financial statements for the first quarter  
10          ended March 31, 2006 were not presented in accordance with GAAP, the  
11          Company's internal controls suffered from significant deficiencies and material  
12          weaknesses and New Century's underwriting standards and loan quality were  
13          significantly worse than described.

14          412. As set forth in paragraphs 137-68 above, numerous former New  
15          Century employees with first-hand knowledge report that contrary to Defendant  
16          Dodge's statement on May 4, 2006 regarding the purported "better credit quality"  
17          of the loans New Century was originating and Defendants Cole, Morrice and  
18          Dodge's statements in the Form 10-Q regarding "underwriting standards and  
19          quality assurance programs to ensure than loan quality is consistent" and  
20          undisclosed to investors, New Century's underwriting practices were actually  
21          loosened substantially by the time of this statement so that the Company could  
22          continue to reach record mortgage origination volume notwithstanding intense  
23          industry competition, rising interest rates and a softening of the real estate market.  
24          Further, as the data set forth in paragraphs 126-35 above establish, New Century  
25          substantially loosened its underwriting in 2005 and 2006, such that its loans  
26          exhibited drastically higher delinquency and repurchase rates as soon as they were  
27          made and with such speed that generic market forces could not be to blame. The  
28          data further establish that New Century, given its loosened underwriting standards,

1 was far more likely to issue a sub-prime borrower a mortgage loan than were its  
2 peers. According to CWs 3, 5, 6, 8, 9, 11, 12, 13, 15, 16, 17, 18, 20, 21, 22, 23, 25,  
3 26, 28, 30 and 31 before Dodge's May 4, 2006 statement was made and the 2006  
4 first quarter 10-Q was issued, New Century already had loosened substantially its  
5 underwriting so that it could increase loan volume at the expense of loan quality.  
6 According to these witnesses, as early as 2003, and progressively from 2004-06,  
7 New Century began originating riskier and riskier mortgage loans because of  
8 increased loan to values, including 80/20 100% financing loans requiring no down  
9 payment, and began increasing the amount of stated income loans which, starting  
10 in 2004-05, were being offered to W-2 wage earners who should have been able to  
11 verify their stated income, but were not required to. Quarterly loan performance  
12 data set forth in paragraph 111 further demonstrate a trend of increasing  
13 delinquencies from the first quarter of 2004 through the first quarter of 2006. The  
14 fact that delinquencies continued to increase thereafter at a dramatic rate further  
15 demonstrates that contrary to Defendant Dodge's above-quoted statement, New  
16 Century's underwriting was not producing "better credit quality" loans, but was  
17 substantially loosened to produce growing origination volume at the expense of  
18 loan quality.

19 413. In addition, as set forth in paragraphs 173-90, 196 above, by the time  
20 of these statements, the Examiner's Report details facts demonstrating "serious  
21 loan quality issues at [New Century] beginning as early as 2004;" numerous "red  
22 flags" relating to loan quality, including "striking" red flags throughout 2005 and  
23 "alarming" trends by February 2006; and the failure of New Century's Senior  
24 Management and Board of Directors to devote sufficient attention to improving  
25 loan quality until the final quarter of 2006, when it "was too late to prevent the  
26 consequences of longstanding loan quality problems in an adversely changing  
27 market." "Rather, New Century continued to focus on generating greater quantities  
28 of ever riskier loans, devoting little effort to such basic issues as making sure that

1 the Company's loan origination and underwriting policies and procedures were  
2 followed to avoid kickouts of loans offered for sale." Contrary to the above  
3 statements, New Century "devoted its resources to generating high volumes of  
4 loans, with relatively little attention to loan quality" and did not even have any  
5 "formal exceptions policy." The Examiner found these ever-increasing risks to be  
6 "a veritable ticking time bomb." As a result of these findings, the Examiner  
7 concluded that the public statements made by New Century regarding its  
8 underwriting and loan quality were not correct when made as, in fact, "New  
9 Century did not produce 'high quality' loans or have 'high origination standards.'"

10 414. As set forth in paragraph 72 above, New Century has now admitted  
11 the need to restate the Company's previously-reported financial statements for the  
12 first three quarters of 2006 based on material violations of GAAP in setting New  
13 Century's Allowance for Repurchase Losses reserve and related material  
14 weaknesses in internal controls. As set forth in paragraph 73 above, New Century  
15 has also admitted errors in the Company's previously-filed annual financial  
16 statements for its fiscal year-ended December 31, 2005 with respect to both the  
17 accounting and reporting of loan repurchase losses and the Company's valuation of  
18 Residual Interests and a "more likely than not" material overstatement in the  
19 Company's previously-issued 2005 financial statements. In addition, as set forth in  
20 paragraphs 66-119 and 191-96 above, facts developed from Lead Counsel's  
21 investigation and set forth in the Examiner's Report further demonstrate that the  
22 Company's financial statements were materially misstated in violation of GAAP at  
23 the time of these May 4, 2006 and May 10, 2006 statements, and the Company's  
24 internal control certifications were materially misstated when issued.

25 415. As set forth in paragraph 75 above, according to CW 1, New Century  
26 had intentionally delayed payment of valid repurchase claims, causing a massive  
27 backlog of repurchase claims, 80% of which, or hundreds of millions of dollars  
28 worth, were 18 to 24 months old as of September 2006 – meaning that the backlog

1 went back to the 2005 first quarter. According to CW 1, these repurchase claims  
2 already were determined to be valid and should have been paid 18 to 24 months  
3 earlier, but the Company delayed payment of them in an effort to cause its  
4 previously reported financial results to appear better than they actually were.  
5 According to CW 1, by the end of the 2004 fourth quarter, New Century already  
6 had a large backlog of valid, unfunded repurchase claims. Accordingly, hundreds  
7 of millions of dollars worth of these valid repurchase claims should have been  
8 funded prior to the start of the Class Period in May 2005, but were not. As set  
9 forth in paragraph 77 above, according to CW 3, New Century was “sitting on  
10 repurchase requests” hoping to ride out the market and the Company failed to have  
11 good internal reporting of repurchase information. In addition, according to the  
12 internal New Century documents quoted in paragraphs 78 and 80 and the data  
13 reported by the Examiner in paragraph 100 above, New Century had a material  
14 repurchase claims backlog as of the end of the 2006 first quarter. The failure to  
15 properly account for these outstanding repurchase claims caused material errors in  
16 the Company’s 2006 first quarter reported financial results and resulted from  
17 material weaknesses in the Company’s internal controls at the time the claims were  
18 received and processed, but not funded, which included the time of the above  
19 statements.

20 416. As set forth in paragraphs 91-99 above, the facts revealed by the  
21 Examiner’s Report demonstrate that “beginning no later than 2004, New Century  
22 was receiving repurchase requests related to loans sold outside of the previous 90-  
23 day period and it was taking much longer than 90 days to evaluate and process  
24 repurchase requests and repurchase loans.” In violation of GAAP, “New Century  
25 was not reserving, however, for these loans that it might be required to repurchase,  
26 and on which it might incur losses and expenses, but for which no reserve was  
27 provided.” By January 26, 2005, the Examiner found “clear indication that New  
28 Century Accounting Department personnel knew that many loans that were

1 ultimately repurchased in 2004 were Backlog Claims. . . . Notwithstanding this  
2 information, New Century did nothing to adjust its methodology for estimating the  
3 quantity of loans that might need to be repurchased as of the end of a financial  
4 reporting period.” In addition, at the time of the above-reported 2006 first quarter  
5 earnings, New Century “perplexingly” further violated GAAP by failing to reserve  
6 for Interest Recapture as set forth in paragraphs 96-97 above and by failing to  
7 apply LOCOM methodology consistent with industry practice and the Company’s  
8 own LOCOM policy. As set forth in paragraph 99 above, the Examiner quantified  
9 the material impact of these GAAP violations at the time of the above-reported  
10 2006 first quarter earnings at (\$21,455,000). Consistent with the Examiner’s  
11 Report, New Century’s above-quoted description of its Allowance for Repurchase  
12 Losses was materially misleading when made as it stated that the Company  
13 “occasionally” may repurchase loans after 90 days without disclosing the then-  
14 existing repurchase claims backlog.

15 417. Moreover, Defendant Morrice’s May 4, 2006 statement that New  
16 Century had observed only a “modest rise” in repurchase claims, something that he  
17 said he “would not call [] material at this point, but a modest rise,” was materially  
18 misleading and incomplete when made given the massive undisclosed repurchase  
19 claims backlog in existence at the time of this statement. As set forth in paragraphs  
20 78 and 100 above, at the time of Defendant Morrice’s May 4, 2006 statement, New  
21 Century’s undisclosed repurchase claims backlog was in excess of \$250 million.

22 418. As set forth in paragraphs 101-08 above, at the time the 2006 first  
23 quarter results were reported, New Century’s reported Residual Interests were  
24 materially misstated as these reported Residual Interests failed to account for the  
25 Company’s progressively decreasing loan quality and underwriting practices, as  
26 well as New Century’s increasing delinquencies, defaults and default loss severity  
27 throughout 2005 and 2006. As set forth in paragraphs 106-08 above, the facts  
28 revealed by the Examiner’s Report demonstrate that New Century’s Residual

1 Interests were misstated at the time of the above-reported 2006 first quarter  
2 earnings and at all times throughout 2005-06 as “New Century insisted on using  
3 unduly low discount rates;” New Century “repeatedly resisted warnings from  
4 specialists at KPMG [starting at least for its quarterly review for the first quarter of  
5 2005], who warned that the discount rates New Century was using were below  
6 those used by most of its peers;” “New Century relied for far too long on  
7 antiquated and flawed internally-developed Excel-based models to value residual  
8 interests;” and New Century failed “to adjust its prepayment rates to reflect  
9 changing market conditions . . . contrary to the advice it consistently received as  
10 far back as the first quarter of 2005 from KPMG’s SFG, which repeatedly  
11 expressed concern about the Company’s use of low prepayment speed  
12 assumptions.”

13 419. As set forth in paragraphs 194-96 above, the facts revealed by the  
14 Examiner’s Report demonstrate that that New Century’s internal controls suffered  
15 from significant deficiencies and material weaknesses at the time of the above-  
16 reported 2006 first quarter internal control certifications and statements and at all  
17 times throughout 2005-06 as the result of “deeply-rooted and long-standing  
18 failures to establish and monitor adequate internal controls over financial  
19 reporting;” including failures to “develop effective policies and procedures for  
20 performing accounting estimates requiring the exercise of considerable judgment;”  
21 and to “remediate internal control deficiencies that existed at year-end 2004.”  
22 Among the deficiencies that New Century failed to remedy from year-end 2004  
23 were “key controls surrounding the repurchase reserve estimation process;” “the  
24 allowance for loan losses methodology and rationale;” and “controls related to the  
25 hedging and derivatives process.” “New Century also failed to establish sufficient  
26 internal controls with respect to its residual interest valuation process.” As  
27 demonstrated by the facts obtained by the Examiner (as well as the numerous other  
28 facts set forth in paragraphs 412-13 above), New Century also suffered throughout



1 2005 and 2006 from “significant deficiencies and material weaknesses in  
2 Management’s internal control structure related to loan quality . . . .”

3 420. Accordingly, the material financial misstatements and significant  
4 deficiencies and material weaknesses in internal controls relating to the repurchase  
5 claims backlog and Residual Interests eventually reported by the Company on  
6 February 7, 2007 and, thereafter, were in existence at the time of the above  
7 statements, rendering them materially misstated when made.

8 **F. 2006 Second Quarter Statements**

9 421. On August 3, 2006, the New Century Officer Defendants Cole,  
10 Morrice and Dodge issued a press release reporting the Company’s earnings results  
11 for the second quarter ended June 30, 2006. The Company reported net income for  
12 the second quarter of \$105.5 million, or \$1.81 per share. The press release  
13 contained a quoted statement from Defendant Morrice as follows: “Our second  
14 quarter results are evidence of the strength and stability of our franchise. We  
15 achieved the second highest quarterly loan production volume in our history, while  
16 substantially improving our operating margin over the first quarter in a challenging  
17 environment.” The press release contained income statement and balance sheet  
18 data purporting to reflect the Company’s financial performance and assets and  
19 liabilities for the three months and six months ended June 30, 2006 in accordance  
20 with GAAP. The press release reported New Century’s Residual Interests as of  
21 June 30, 2006 at \$209,335,000.

22 422. On August 3, 2006, the New Century Officer Defendants also held a  
23 conference call with analysts and investors. During the call, Defendants Morrice  
24 and Dodge reviewed the Company’s reported financial results for the quarter ended  
25 June 30, 2006. During the call, Defendant Dodge responded to question regarding  
26 repurchase claims and loans sold at a discount as follows:

27 Yes, I would tell you that while we are seeing that – a modest upward  
28 in investor due diligence and loans that we are repurchasing as a result

1 of early payment defaults. Most of the reasons for the increase in the  
2 discounted sales is in terms of the second [trust deeds]. And the first  
3 [quarter] you might recall we did a securitization of those second  
4 [trust deeds] because the whole loan market at that time was very  
5 weak. The whole loan market for second [trust deeds] strengthened  
6 pretty meaningfully in the second quarter. And we took the  
7 opportunity to sell a pool of those loans for a price that was just barely  
8 under par. I would tell you that most of the second [trust deeds] that  
9 we originate are the 20% portion of what we call an 80/20 loan. And  
10 we generally price the combined 80/20 loan to achieve our target  
11 profit margin. So you shouldn't be concerned that if we carve out the  
12 20% second [trust deeds] and sell that at a discount that that means  
13 that we have a particular issue with those loans. We look at the  
14 overall profitability of the combined loans. [Emphasis added.]

15 423. On or about August 9, 2006, the New Century Officer Defendants  
16 Cole, Morrice and Dodge filed the Company's Form 10-Q for the quarter ended  
17 June 30, 2006. The second quarter 2006 Form 10-Q contained consolidated  
18 balance sheets and consolidated statements of earnings purporting to reflect the  
19 Company's financial performance and assets and liabilities for the three months  
20 ended June 30, 2006 in accordance with GAAP. The Form 10-Q stated:

21 The Company has prepared the accompanying unaudited condensed  
22 consolidated financial statements in accordance with accounting  
23 principles generally accepted in the United States of America for  
24 interim financial information and with the instructions to Form 10-Q  
25 and Rule 10-01 of Regulation S-X. Accordingly, they do not include  
26 all of the information and footnotes required by generally accepted  
27 accounting principles for complete financial statements. In the  
28 opinion of management, all adjustments (consisting of normal

1 recurring accruals) considered necessary for a fair presentation have  
2 been included. [Emphasis added.]

3 The second quarter 2006 Form 10-Q was signed by Defendants Cole, Morrice and  
4 Dodge.

5 424. The second quarter 2006 Form 10-Q reported New Century's Residual  
6 Interests as of June 30, 2006 at \$209,335,000 and Allowance for Loan Repurchase  
7 Losses as of June 30, 2006 at \$14,400,000. The second quarter 2006 Form 10-Q  
8 purported to describe the Company's "Critical Accounting Policies" including New  
9 Century's methods for calculating "Residual Interests in Securitizations" and  
10 "Allowance for Repurchase Losses:"

11 *Residual Interests in Securitizations*

12 [T]he Residuals described above are a significant asset of the  
13 Company. In determining the value of the Residuals, the Company  
14 estimates the future rate of prepayments, prepayment penalties that we  
15 will receive, delinquencies, defaults and default loss severity as they  
16 affect the amount and timing of estimated cash flows. . . . The  
17 Company bases these estimates on historical loss data for the loans,  
18 the specific characteristics of the loans and the general economic  
19 environment. . . . The Company performs an evaluation of the  
20 Residuals quarterly, taking into consideration trends in actual cash  
21 flow performance, industry and economic developments, as well as  
22 other relevant factors.

23 \* \* \*

24 *Allowance for Repurchase Losses*

25 Generally, repurchases are required within 90 days from the  
26 date the loans are sold. Occasionally, we may repurchase loans after  
27 90 days have elapsed. . . . As of June 30, 2006 and December 31,  
28 2005, the repurchase allowance totaled \$14.4 million and \$7.0

million, respectively . . . . We believe the allowance for repurchase losses is adequate as of June 30, 2006 and December 31, 2005.  
[Emphasis added.]

425. The second quarter 2006 Form 10-Q stated as follows regarding the Company's underwriting standards:

We originate and purchase primarily first mortgage loans nationwide. Historically, we have focused on lending to individuals whose borrowing needs are generally not fulfilled by traditional financial institutions because they do not satisfy the credit, documentation or other underwriting standards prescribed by conventional mortgage lenders and loan buyers.

\* \* \*

For the six months ended June 30, 2006, full documentation loans as a percentage of total mortgage loan originations were \$16.4 billion, or 55.5%, limited documentation loans were \$627.7 million, or 2.1%, and stated documentation loans were \$12.5 billion, or 42.4%.

... We designed our underwriting standards and quality assurance programs to ensure that loan quality is consistent and meets our guidelines, even as the documentation type mix varies. [Emphasis added.]

426. The second quarter 2006 Form 10-Q provided the following information regarding New Century's internal controls and procedures:

As of June 30, 2006, the end of our second quarter, our management, including our Chairman of the Board, President and Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on that evaluation, our Chairman of the Board,

1 President and Chief Executive Officer and Chief Financial Officer  
2 concluded, as of June 30, 2006, that our disclosure controls and  
3 procedures were effective to ensure that information required to be  
4 disclosed by us in reports that we file or submit under the Securities  
5 Exchange Act of 1934 is recorded, processed, summarized and  
6 reported within the time periods specified in the Securities and  
7 Exchange Commission rules and forms. There was no change in our  
8 internal control over financial reporting during the quarter ended June  
9 30, 2006 that materially affected, or is reasonably likely to materially  
10 affect, our internal control over financial reporting. [Emphasis  
11 added.]

12 427. Accompanying the second quarter 2006 Form 10-Q as exhibits were  
13 certifications signed by Defendants Cole, Morrice and Dodge in the form set forth  
14 in paragraph 349 above.

15 428. The above-referenced statements from the New Century Officer  
16 Defendants' press release, conference call and Form 10-Q for the second quarter  
17 ended June 30, 2006 were materially misstated and omitted to state material facts  
18 required therein or necessary to make the statements contained therein not  
19 misleading, at all times throughout the Class Period. Contrary to the above-  
20 referenced statements, New Century's financial statements for the second quarter  
21 ended June 30, 2006 were not presented in accordance with GAAP, the Company's  
22 internal controls suffered from significant deficiencies and material weaknesses  
23 and New Century's underwriting standards and loan quality were significantly  
24 worse than described.

25 429. As set forth in paragraphs 137-68 above, numerous former New  
26 Century employees with first-hand knowledge report that contrary to Defendants  
27 Cole, Morrice and Dodge's statement in the Form 10-Q regarding "underwriting  
28 standards and quality assurance programs to ensure than loan quality is consistent

1 and meets our guidelines” and undisclosed to investors, New Century’s  
2 underwriting practices were actually loosened substantially by the time of this  
3 statement so that the Company could continue to reach record mortgage origination  
4 volume notwithstanding intense industry competition, rising interest rates and a  
5 softening of the real estate market. Further, as the data set forth in paragraphs 126-  
6 35 above establish, New Century substantially loosened its underwriting in 2005  
7 and 2006, such that its loans exhibited drastically higher delinquency and  
8 repurchase rates as soon as they were made and with such speed that generic  
9 market forces could not be to blame. The data further establish that New Century,  
10 given its loosened underwriting practices, was far more likely to issue a sub-prime  
11 borrower a mortgage loan than were its peers. According to CWs 3, 5, 6, 8, 9, 11,  
12 12, 13, 15, 16, 17, 18, 20, 21, 22, 23, 25, 26, 28, 30 and 31 before the 2006 second  
13 quarter Form 10-Q was issued, New Century already had loosened substantially its  
14 underwriting so that it could increase loan volume at the expense of loan quality.  
15 According to these witnesses, as early as 2003, and progressively from 2004-06,  
16 New Century began originating riskier and riskier mortgage loans because of  
17 increased loan to values, including 80/20 100% financing loans requiring no down  
18 payment, and began increasing the amount of stated income loans which, starting  
19 in 2004-05, were being offered to W-2 wage earners who should have been able to  
20 verify their stated income, but were not required to. Quarterly loan performance  
21 data set forth in paragraph 111 further demonstrate a trend of increasing  
22 delinquencies from the first quarter of 2004 through the second quarter of 2006.  
23 The fact that delinquencies continued to increase thereafter at a dramatic rate  
24 further demonstrates that contrary to Defendants’ above-quoted statement, New  
25 Century’s underwriting practices were substantially loosened to produce growing  
26 origination volume at the expense of loan quality.

27 430. In addition, as set forth in paragraphs 173-90, 196 above, by the time  
28 of these statements, the Examiner’s Report details facts demonstrating “serious

1 loan quality issues at [New Century] beginning as early as 2004,” numerous “red  
2 flags” relating to loan quality, including “striking” red flags throughout 2005 and  
3 “alarming” trends by February 2006; and the failure of New Century’s Senior  
4 Management and Board of Directors to devote sufficient attention to improving  
5 loan quality until the final quarter of 2006, when it “was too late to prevent the  
6 consequences of longstanding loan quality problems in an adversely changing  
7 market.” “Rather, New Century continued to focus on generating greater quantities  
8 of ever riskier loans, devoting little effort to such basic issues as making sure that  
9 the Company’s loan origination and underwriting policies and procedures were  
10 followed to avoid kickouts of loans offered for sale.” Contrary to the above  
11 statements, New Century “devoted its resources to generating high volumes of  
12 loans, with relatively little attention to loan quality” and did not even have any  
13 “formal exceptions policy.” The Examiner found these ever-increasing risks to be  
14 “a veritable ticking time bomb.” As a result of these findings, the Examiner  
15 concluded that the public statements made by New Century regarding its  
16 underwriting and loan quality were not correct when made.

17 431. As set forth in paragraph 72 above, New Century has now admitted  
18 the need to restate the Company’s previously-reported financial statements for the  
19 first three quarters of 2006 based on material violations of GAAP in setting New  
20 Century’s Allowance for Repurchase Losses reserve and related material  
21 weaknesses in internal controls. As set forth in paragraph 73 above, New Century  
22 has also admitted errors in the Company’s previously-filed annual financial  
23 statements for its fiscal year-ended December 31, 2005 with respect to both the  
24 accounting and reporting of loan repurchase losses and the Company’s valuation of  
25 Residual Interests and a “more likely than not” material overstatement in the  
26 Company’s previously-issued 2005 financial statements. In addition, as set forth in  
27 paragraphs 66-119 and 191-96 above, facts developed from Lead Counsel’s  
28 investigation and set forth in the Examiner’s Report further demonstrate that the

1 Company's financial statements were materially misstated in violation of GAAP at  
2 the time of these August 3, 2006 and August 9, 2006 statements and the  
3 Company's internal control certifications were materially misstated when issued.

4 432. As set forth in paragraph 75 above, according to CW 1, New Century  
5 had intentionally delayed payment of valid repurchase claims, causing a massive  
6 backlog of repurchase claims, 80% of which, or hundreds of millions of dollars  
7 worth, were 18 to 24 months old as of September 2006 – meaning that the backlog  
8 went back to the 2005 first quarter. According to CW 1, these repurchase claims  
9 already were determined to be valid and should have been paid 18 to 24 months  
10 earlier, but the Company delayed payment of them in an effort to cause its  
11 previously reported financial results to appear better than they actually were.  
12 According to CW 1, by the end of the 2004 fourth quarter, New Century already  
13 had a large backlog of valid, unfunded repurchase claims. Accordingly, hundreds  
14 of millions of dollars worth of these valid repurchase claims should have been  
15 funded prior to the start of the Class Period in May 2005, but were not. As set  
16 forth in paragraph 77 above, according to CW 3, New Century was “sitting on  
17 repurchase requests” hoping to ride out the market and the Company failed to have  
18 good internal reporting of repurchase information. In addition, according to the  
19 internal New Century documents quoted in paragraphs 78 and 80 and the data  
20 provided by the Examiner in paragraph 100 above, New Century had a material  
21 repurchase claims backlog as of the end of the 2006 second quarter. The failure to  
22 properly account for these outstanding repurchase claims caused material errors in  
23 the Company's 2006 second quarter reported financial results and resulted from  
24 material weaknesses in the Company's internal controls at the time the claims were  
25 received and processed, but not funded, which included the time of the above  
26 statements. In addition, as set forth in paragraph 83 above, according to CW 2,  
27 New Century, in violation of GAAP, did not include in its Allowance for  
28



1 Repurchase Losses reserve any estimated discount for disposition necessary to  
2 report loans repurchased in the 2006 second quarter at fair market value.

3 433. As set forth in paragraphs 91-99 above, the facts revealed by the  
4 Examiner's Report demonstrate that "beginning no later than 2004, New Century  
5 was receiving repurchase requests related to loans sold outside of the previous 90-  
6 day period and it was taking much longer than 90 days to evaluate and process  
7 repurchase requests and repurchase loans." In violation of GAAP, "New Century  
8 was not reserving, however, for these loans that it might be required to repurchase,  
9 and on which it might incur losses and expenses, but for which no reserve was  
10 provided." By January 26, 2005, the Examiner found "clear indication that New  
11 Century Accounting Department personnel knew that many loans that were  
12 ultimately repurchased in 2004 were Backlog Claims. . . . Notwithstanding this  
13 information, New Century did nothing to adjust its methodology for estimating the  
14 quantity of loans that might need to be repurchased as of the end of a financial  
15 reporting period." In addition, at the time of the above-reported 2006 second  
16 quarter earnings, New Century "perplexingly" further violated GAAP by failing to  
17 reserve for Interest Recapture as set forth in paragraphs 96-97 above and by failing  
18 to apply LOCOM methodology consistent with industry practice and the  
19 Company's own LOCOM policy before improperly eliminating the LOCOM  
20 adjustment entirely for repurchased loans in the 2006 second quarter as set forth in  
21 paragraph 98 above. As set forth in paragraph 99 above, the Examiner quantified  
22 the material impact of these GAAP violations at the time of the above-reported  
23 2006 second quarter earnings at (\$60,515,000). Consistent with the Examiner's  
24 Report, New Century's above-quoted description of its Allowance for Repurchase  
25 Losses was materially misleading when made as it stated that the Company  
26 "occasionally" may repurchase loans after 90 days without disclosing the then-  
27 existing repurchase claims backlog.

1           434. Moreover, Defendant Dodge’s August 3, 2006 statement that New  
2 Century had observed only a “modest upward” in repurchase claims, was  
3 materially misleading when made given the massive undisclosed repurchase claims  
4 backlog in existence at the time of this statement. As set forth in paragraphs 78,  
5 85-86 and 100 above, at the time of Defendant Dodge’s August 3, 2006 statement,  
6 New Century’s repurchase claims backlog was in excess of \$190 million and far  
7 greater than the repurchases disclosed in the Form 10-Q for the quarter ended June  
8 30, 2006.

9           435. As set forth in paragraphs 101-08 above, at the time the 2006 second  
10 quarter results were reported, New Century’s reported Residual Interests were  
11 materially overstated as these reported Residual Interests failed to account for the  
12 Company’s progressively decreasing loan quality and underwriting practices as  
13 well as New Century’s increasing delinquencies, defaults and default loss severity  
14 throughout 2005 and 2006. As set forth in paragraphs 106-08 above, the facts  
15 revealed by the Examiner’s Report demonstrate that New Century’s Residual  
16 Interests were overstated at the time of the above-reported 2006 second quarter  
17 earnings and at all times throughout 2005-06 as “New Century insisted on using  
18 unduly low discount rates;” New Century “repeatedly resisted warnings from  
19 specialists at KPMG [starting at least for its quarterly review for the first quarter of  
20 2005], who warned that the discount rates New Century was using were below  
21 those used by most of its peers;” “New Century relied for far too long on  
22 antiquated and flawed internally-developed Excel-based models to value residual  
23 interests;” and New Century failed “to adjust its prepayment rates to reflect  
24 changing market conditions . . . contrary to the advice it consistently received as  
25 far back as the first quarter of 2005 from KPMG’s SFG, which repeatedly  
26 expressed concern about the Company’s use of low prepayment speed  
27 assumptions.” The Examiner quantified the material impact of these GAAP  
28